

Message Text

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ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 SPC-03 AID-20 EB-11 NSC-10 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 PA-04 PRS-01 USIA-15 DRC-01 SCI-06 SCEM-02

INT-08 /190 W

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R 191855Z DEC 73

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 6604

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

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DEPARTMENT ALSO PASS TREASURY AND FRB

E.O. 11652: N/A

TAGS: ECON, UK

SUBJECT: MINI-BUDGET; DETAILS AND MORE COMMENT

REF: (A) LONDON 14871; (B) LONDON 14808; (C)

LONDON 14887

SUMMARY: THE AVAILABILITY OF DETAILS OF THE MEASURES

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ANNOUNCED BY CHANCELLOR BARBER IN HIS MINI-BUDGET OF

DECEMBER 17 DO NOT ADD A GREAT DEAL TO GENERAL UNDER-
STANDING OF THE ECONOMIC THRUST OF THE MINI-BUDGET.
PRESS REACTION HAS BEEN MIXED BUT MUTED AS MOST COM-
MENTATORS SEEM SURPRISED AT THE RELATIVE MILDNESS OF
THE MEASURES AND WONDER AT THEIR EFFICACY GIVEN THE
SEVERITY OF THE GOVERNMENT'S WORKWEEK CUTS TO SAVE FUEL.
THERE MAY BE GOOD REASON TO VIEW THE MINI-BUDGET AS A
FLEXIBLE INTERIM MEASURE UNTIL THE ANNUAL APRIL BUDGET.
BY THAT TIME THE GOVERNMENT SHOULD HAVE A CLEARER VIEW
OF THE WAY AHEAD. END SUMMARY

1. DETAILS OF BARBER'S MEASURES ON HIRE PURCHASE, CON-
SUMER CREDIT, MONEY SUPPLY CONTROL, AND TAX ARE NOW
AVAILABLE AND ARE BEING FORWARDED TO WASHINGTON BY
AIRGRAM ALONG WITH THE TEXT OF HIS STATEMENT. ESSEN-
TIALY HIRE PURCHASE REGULATIONS WILL NOW REQUIRE A
33.3 PERCENT DOWN-PAYMENT ON MOST CONSUMER DURABLES
WITH A MAXIMUM REPAYMENT PERIOD OF 24 MONTHS. BANKS
ARE ASKED TO RESTRICT CONSUMER CREDIT IN PARALLEL
FASHION.

2. IN ORDER TO CURTAIL LENDING, BANKS AND FINANCE
HOUSES MUST PLACE NON-INTEREST BEARING SPECIAL DEPOSITS
WITH THE BANK OF ENGLAND IN RELATION TO THE GROWTH OF
THEIR INTEREST BEARING RESOURCES. THE BASE LEVEL WILL
BE THE AVERAGE OF INTEREST BEARING RESOURCES FOR
SELECTED DATES IN OCTOBER, NOVEMBER AND DECEMBER. THE
RATE OF GROWTH PERMITTED WITHOUT SPECIAL DEPOSITS IS
8 PERCENT FOR THE FIRST SIX MONTHS TO APRIL 1974. THE
RATE OF SPECIAL DEPOSIT REQUIRED WILL BE SHARPLY PRO-
GRESSIVE (UP TO 50 PERCENT) WITH THE GROWTH OF EACH
INSTITUTION'S INTEREST BEARING RESOURCES IN EXCESS OF
THE PERMITTED 8 PERCENT RATE OF GROWTH. BANKS AND FI-
NANCE HOUSES ARE ASKED TO EXERCISE STRONG RESTRAINT IN
LENDING TO INDIVIDUALS, PROPERTY COMPANIES, AND FOR FI-
NANCIAL TRANSACTIONS. THE MEASURE SHOULD BE EFFECTIVE.

3. BARBER ALSO ANNOUNCED THAT A NEW TAX ON GAINS FROM
PROPERTY SPECULATION WILL BE IMPLEMENTED. THIS WILL BE
AT PROGRESSIVELY GRADUATED LEVELS (UP TO 75 PERCENT)
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BUT WILL EXCLUDE SMALL SALES (L0,000 POUNDS FOR IN-
DIVIDUALS; L,000 POUNDS FOR COMPANIES AND ALL SALES BY
OWNER-OCCUPIERS). THERE IS ALSO A 10 PERCENT SUR-
CHARGE ON THE SURTAX PAID BY HIGH INCOME EARNERS IN THE
UK. THESE MEASURES ARE EXPECTED TO BRING IN REVENUES
OF 80 MILLION POUNDS AND 35 MILLION POUNDS RESPECTIVELY.
THEY ARE DIRECTED AT GAINING POLITICAL SUPPORT RATHER
THAN ANY SIGNIFICANT IMPACT ON UK PURCHASING POWER.

4. IN THE SHORT TERM THE IMPACT ON DEMAND WILL COME THROUGH THE HIRE PURCHASE AND OTHER CONSUMER CREDIT REGULATIONS AS WELL AS THE NEW CONTROLS ON BANK LENDING AND CREDIT. ECONOMISTS AT TREASURY, NATIONAL INSTITUTE OF ECONOMIC AND SOCIAL RESEARCH (NIESR), AND THE CONFEDERATION OF BRITISH INDUSTRY (CBI) WITH WHOM THE EMBASSY HAS DISCUSSED THE MINI-BUDGET ALL BELIEVE THAT THESE MEASURES WILL BE SUFFICIENT TO ADEQUATELY RESTRAIN DEMAND IN THE NEXT 30-45 DAYS. THE TIMING IS, OF COURSE, HELPFUL AS POST-CHRISTMAS DEMAND IS USUALLY LOW IN ANY CASE. IT HAS BEEN STRESSED THAT DIRECT TAX INCREASES COULD PROBABLY NOT HAVE BEEN EFFECTED, BECAUSE OF ADMINISTRATIVE DIFFICULTIES, UNTIL APRIL WHILE

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INDIRECT TAX INCREASES WOULD HAVE IMMEDIATELY IMPACTED ON THE PRICE LEVEL. ANY TAX RISES WOULD HAVE ENGENDERED POLITICAL OPPOSITION, BOTH FROM LABOR AND SOME CONSERVATIVES, BUT THERE IS PRESS COMMENT THAT TAXING GASOLINE, ALCOHOL, AND LUXURY ITEMS WOULD HAVE BEEN ACCEPTABLE.

5. THE FULL DETAILS OF THE 1.2 BILLION POUND CUT IN PUBLIC EXPENDITURE ARE STILL NOT PRECISE. DEFENSE EXPENDITURE WILL BE CUT 178 MILLION POUNDS. THE IMPACT, PARTICULARLY ON INCOME, OF EXPENDITURE CUTS WILL MAINLY LIMITED OFFICIAL USE

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OCCUR IN THE SECOND HALF OF 1974. NIESR ECONOMISTS BELIEVE THAT SOME PART OF THE CUTS ARE "PAPER CUTS" ONLY, BECAUSE THE GOVERNMENT HAS BEEN UNDERSPENDING ON PROJECTS AND PURCHASES THROUGHOUT THE YEAR. NIESR HAS NOT YET WORKED OUT WHETHER AND HOW MUCH THIS REALLY IS THE CASE.

6. AS REPORTED, NO MEASURES WERE TAKEN AIMED DIRECTLY AT IMPORTS. IMPORTS WILL, OF COURSE, BE AFFECTED BY THE NEW HIRE PURCHASE RULES (WHICH MAY HURT AUTOMOBILE IMPORTS, AS MANY FOREIGN CAR DEALERS SELL EXTENSIVELY ON CREDIT) AND LATER ON BY THE REDUCTION IN DEMAND FROM THE PUBLIC EXPENDITURE CUTS.

7. THE GENERAL CONSENSUS, WITH WHICH THE EMBASSY AGREES, IS THAT THE MINI-BUDGET IS ALMOST AN ANTICLIMAX AFTER ALL THE FANFARE SINCE THE PRIME MINISTER'S ANNOUNCEMENT OF WORK-WEEK CUTS (SEE REF B). IT APPEARS TO BE AN INTERIM MEASURE WHICH CAN BE STRENGTHENED OR DILUTED BY THE ANNUAL BUDGET IN MARCH OR APRIL.

8. ADDED TO THIS IS THE BELIEF OF SOME INDUSTRIAL ECONOMISTS AT NIESR THAT THE MEASURES CUTTING THE WORK-WEEK WERE EXCESSIVE. VIEWED FROM THAT ANGLE, BOTH THE WORK-WEEK REDUCTIONS ANNOUNCED BY HEATH AND BARBER'S MINI-BUDGET SHOULD BE VIEWED IN A POLITICAL AS WELL AS AN ECONOMIC CONTEXT (SEE REF C).

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